

CONFERENCE OF STATE BANK SUPERVISORS

ACCREDITATION PROGRAM

ANNUAL REVIEW #18

OF THE

CALIFORNIA DEPARTMENT OF FINANCIAL INSTITUTIONS

FOR 2008

Accredited: April 6, 1990
Re-accredited: December 13, 1995
Re-accredited: May 31, 2001
Re-accredited: May 15, 2006

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ANNUAL REVIEW QUESTIONNAIRE INSTRUCTIONS

The Annual Review Team requests that you complete this Annual Review Questionnaire to inform them of changes that have occurred in the department over the past year.

This Annual Review consists of three required sections plus an optional section:

1. Department statistics (prior year data should be available when you log in to the website for completing the current Section I of the Profile).
2. General Questions, including significant/material changes that have occurred in department operations and capabilities during calendar year 2008.
3. *Optional Section* to provide you an opportunity to inform the Annual Review Team of additional accomplishments not covered in the required sections of the questionnaire.
4. Responses to previous Re-Accreditation Review Team and/or Annual Review Team recommendations based on last years' responses and statistical information.

When completed, please return this form by **March 31, 2009**, to ghigh@csbs.org.

Section One: Department Statistics COMPLETE 2008 PROFILE INFORMATION – SECTION I

FOR CONSISTENCY AND COMPARISON PURPOSES WHEN COMPLETING SECTION I OF THE PROFILE:

- Please count report turnaround time from the time of the exit meeting when the examiners leave the financial institution until the date the final report is mailed back to the financial institution.
- When reporting salary ranges for trainee examiners, if you always begin a newly hired trainee at levels higher than the beginning of the salary range, use the lowest beginning salary paid not the lowest amount in the range. This should give a more realistic comparison of salaries.
- If you perform Bank Holding Company reviews with independent bank examinations please count those as independent Bank Holding Company Examinations even though the results may be included in the bank's report of examination.

Section Two: General Questions

- I. Briefly describe any significant/material changes that have occurred in the following four categories (indicate if no significant changes have occurred in any category). ***Please limit responses to a maximum of two (2) typewritten pages for each of the following four categories.***

i. Administration and Finances - Including: The department's organization, senior management, access to legal counsel, applications processing, information systems capabilities, and budget/funding sources and amounts.

Response: During 2008, the organizational chart was flattened. The financial institution supervisors were promoted to financial institutions managers. DFI split the financial institutions managers into two types, portfolio managers and examination managers. The working titles of these positions are Assistant Deputy Commissioner and Examinations Manager. Both positions now report to deputy commissioners. Also, one Assistant Deputy Commissioner also received an assignment of Assistant Chief Examiner as part of her duties.

ii. Personnel and Training - Including: Personnel policies/procedures such as job descriptions, hiring/recruiting procedures, performance appraisal procedures, promotional opportunity structure, salary/benefit schedules, training policy, training manual, and training budget.

Response: We modified job descriptions within existing duty statements and subsequently re-aligned duties to promote several support staff individuals into more responsible and higher paying positions.

iii. Examination - Including: Examination policies/procedures; report forms; examination manuals; ability to examine for **Capital/Assets/Management/Earnings/Liquidity/Sensitivity**; ability to examine the specialty areas of Trust, IT, International, Consumer Compliance and Bank Holding Companies; examination report review procedures; and/or follow-up on examination problems.

Response: Several regional workshops were held and conducted by our examination managers in the areas of classified assets, loan write ups and ALLL analysis. Also, three two-day BHC workshops were conducted by FRB personnel to conduct for all DFI examiners in the Banking Program.

iv. Supervision and Legislation - Including: Off-site bank monitoring (early warning, screening, surveillance) system; authority to take and enforce actions against banks, holding companies/affiliates, officers and directors; revision or updating of the banking code; ability to promulgate rules and regulations; and/or reorganization of state government affecting the department.

Response: The Department's Financial Code revisions, as part of a modernization effort, were approved by the legislature. This initiative, among other things, grants authority to issue enforcement actions against holding companies.

- II. Briefly describe the overall economic condition of your state, including: changes occurring within the past 12 months that may affect the safety and soundness of banks. Also, briefly state your department's major/primary goals and objectives for the current year. ***Please limit response to a maximum of one (1) typewritten page.***

Response: During the past 12 months, California has seen a slow down in real estate lending, primarily construction and development, due to the housing and mortgage crisis. The identified issues caused banks to make large fourth quarter provisions to their allowance for loan losses, which impacted earnings and capital. Classified assets have risen and are expected to grow. Concentrations in CRE are still an issue for many banks in California and are now beginning to cause strain to their balance sheets. While capital levels were relatively high going into 2008, asset quality issues will continue to erode capital to the point that some banks will need to increase capital or face the consequence.

Many of the de novo institutions in California are having difficulty meeting projections, keeping executive management intact and are becoming problem banks.

The Department's goals and objectives include:

To promote a strong financial services community through leadership, direction, and oversight; by:

- Retaining skilled, effective and professional employees.
- Being the charter of choice.
- Providing leadership in practices, procedures, and directions.
- Expanding and/or enhance supervision and regulation where appropriate.

To improve business systems affecting the Department, the licensees and the public; by:

- Improving processes impacting internal stakeholders.
- Improving processes impacting external stakeholders.

To maintain the public confidence and trust in the financial services system while meeting the changing needs of the industry; by:

- Identifying and disseminating current issues in a timely manner.

Section Three: Optional Section

This optional section provides you the opportunity to inform the Annual Review Team of additional department or individual staff member achievements during 2008 that are not covered in the required sections of this questionnaire. If you choose to complete this section, briefly describe any accomplishments that reflect on your department. ***Please limit your response to this section to a maximum of one (1) typewritten page.***

Response: None

Section Four: Previous Review Team/Annual Review Team Recommendations

Respond to each of the Review Team's or Annual Review Team's recommendation(s) listed on the following page. In your response, please comment on and explain the following:

- 1) What actions have been taken on the recommendations, and
- 2) Which actions are still in the planning stages? Include projected time frames for items/issues in the planning stages.

Please limit responses to a maximum of one (1) typewritten page for each recommendation.

CONFERENCE OF STATE BANK SUPERVISORS ACCREDITATION PROGRAM

ANNUAL REVIEW #18 (2008)

RECOMMENDATIONS AND RESPONSES TO THE CALIFORNIA DEPARTMENT OF FINANCIAL INSTITUTIONS

Please respond to the following comments from the 2008 Annual Review Team:

Provide an update on the following:

1. Pay differential based on examiner certification

Response: The proposal is still pending with the California Department of Personnel.

2. Off-site monitoring of non-depository trust companies

Response: Off-site monitoring of non-depository trust companies is done quarterly using trend analysis in the areas of capital adequacy, earnings and other financial factors. The Department's existing early warning software, FIMis, is still being reviewed for inclusion of non-depository trust companies.

Based on the information submitted last year, the Review Team notes the increase in overall staffing. At the same time, the number of field examiners decreased by 17 while the number of examiner vacancies declined. Please provide information on the decline in examination staff.

Response: It appears that a reporting error may have occurred. The number of field examination staff has increased significantly during the last two years. In 2007, the banking program received ten new positions. In 2008, the banking program received one new position. Also, in 2008, our financial institutions supervisors became financial institutions managers. In 2008, the money transmitter program received eight new positions. It appears that we may have included credit union, banking and/or money transmitter positions in some categories in some years and not in others. We have not had any staff reductions in many years.